

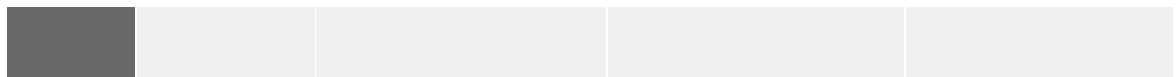
## G10 FX Week Ahead: Setting the summer vibe

The Fed meeting is the last big event before the summer period and will likely set the market tone for the coming weeks. We expect caution will prevail and the dollar may ultimately lose some support. Elsewhere, the Bank of Japan could sound more upbeat on the outlook, and the Norges Bank may signal a more hawkish stance



Federal Reserve  
Chairman Jerome  
Powell

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## USD: Keep calm and carry on

|     | Spot    | Week ahead bias  | Range next week   | 1 month target |
|-----|---------|--|-------------------|----------------|
| DXY | 90.4900 | Mildly Bearish  | 89.6000 - 90.5000 | 89.0000        |


- The highlight of the FX week ahead will undoubtedly be Wednesday's FOMC meeting. Financial markets go into the meeting with a conviction call that Fed and ECB liquidity is firmly in place for the summer and that the only game in town is to search for carry amidst declining levels of volatility. While the Fed may be a little nearer to discussing tapering, we are not looking for the statement, new projections or Chair Powell's press conference to unsettle markets. After all markets seem quite comfortable with the view that Fed tapering could start in December this year, with the first rate hike in early 2023. Assuming nothing too hawkish emerges expect traded volatility levels to take another leg lower as the carry trade rolls on.
- US data next week, be it retail sales or industrial production looks unlikely to move markets and instead the carry environment could increase focus on yield opportunities in emerging markets. Russia hiked 50bp on Friday and may well do another 50bp in July. Brazil should hike 75bp this week. And both Russia and Turkey are in focus (positively) ahead of President Biden's meeting with Turkish and Russian presidents this week as part of his European tour.

## EUR: Drowning in liquidity

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| EUR/USD | 1.2111 | Mildly Bullish  | 1.2075 - 1.2210 | 1.2300         |

- Friday saw the EUR offered across the board as the market digested the implications of the ECB meeting. For example, is the USD or EUR the best funding currency this summer? Our opinion is that the USD should marginally lose out and that we see a low volatility rally in EUR/USD this summer – perhaps even to the 1.25 area. The calendar in the week ahead looks very light. And perhaps there will be more of a focus on the US-EU summit – and perhaps some word of a global tax deal.
- Should the FOMC not un-nerve markets, we would look for EUR/USD to be pushing higher towards the end of next week. A benign Fed outcome should also be the catalyst to push EUR/USD one year implied volatility decisively below the 6% area.

## JPY: BoJ sounding upbeat?

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| USD/JPY | 109.77 | Mildly Bearish  | 108.60 - 110.00 | 108.00         |

- Japan is seen to have performed poorly with its handling of the virus. Nine prefectures are still in lockdown and only 11% of Japan's population have had their first vaccine doses – compared to above 50% levels in the UK and the US. Yet lockdowns are working, case numbers are falling, and a re-opening of the economy could be a constructive story for Japan later this summer.
- This is the backdrop for Friday's BoJ meeting. Expect the BoJ to still sound reasonably upbeat, although none of its key policy levers look set to be adjusted for quite a while. Arguably USD/JPY should have been lower given the collapse in US yields, such that its resilience is worrying for USD/JPY bears such as ourselves. Yet we still would not favour chasing gains above 110. The data calendar sees trade data for May and also national CPI, expected at -0.2% year-on-year.

## GBP: Domestic downside risks in place but GBP/USD to stay flat

|         | Spot   | Week ahead bias | Range next week | 1 month target |
|---------|--------|-----------------|-----------------|----------------|
| GBP/USD | 1.4160 | Neutral         | 1.4010 - 1.4380 | 1.4400         |

- With the risk environment to remain supportive next week and the cautious Fed unlikely to reverse the current soft USD environment, the GBP/USD should stay supported. Domestically, while it looks more and more likely that the 21 June restriction easing date will be postponed, the impact on the economy should be very limited (with the delay likely being a matter of weeks). If anything, in terms of the near-term downside risk to GBP the focus should remain on the UK-EU trade tensions, the risks around the implementation of the Northern Ireland protocol, its possible breach from the UK and subsequent EU tariffs. This could have a short-term negative effect on GBP.
- On the UK data front, it will be busy week. The May CPI (Wed) is to rise to 1.8% YoY and moving above 2% later this year. But with inflation to normalise lower in 2022, the case for imminent tightening is not in place. The UK April employment data (Tuesday) should improve further, reflecting the reopening of the economy, while May retail sales (Friday) should increase further as well, although by less than the jump observed in April.

## AUD: Jobs data hold keys to rate expectations

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| AUD/USD | 0.7730 | Mildly Bullish  | 0.7700 - 0.7820 | 0.7800         |

- Thursday's jobs data for the month of May in Australia will be the last key release before the 9 July Reserve Bank of Australia meeting, when changes to the shape (and possibly size) of the QE will be unveiled. We forecast a rather strong headline print (45k), which is likely above consensus, and also see the unemployment rate dropping from 5.5% to 5.4%. This should be a welcome development by those expecting a less dovish RBA, as it brightens the inflation outlook for 2Q after the underwhelming 1Q read.
- In the week ahead, we'll also see the minutes of June's RBA meeting. Any anticipation about where the discussion about tweaking QE in July is heading will move the market, although we doubt we'll see much on this topic. The RBA Governor, Philip Lowe, will also deliver a speech on Thursday, although he is scheduled to speak before the release of the jobs report so there may not be any relevant policy comments. We think the jobs report can provide some support to AUD/USD next week, which may test 0.7800 next week.

## NZD: Underperformance not warranted by fundamentals

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| NZD/USD | 0.7150 | Mildly Bullish  | 0.7130 - 0.7250 | 0.7300         |

- The Kiwi dollar has continued to bear most of the brunt of the positive USD momentum, still largely due to an unwinding of long positions on NZD, in our view. After all, fundamentals for the currency remain good and external factors, like steadily high dairy prices, are also offering reasons to stay optimistic on NZD.
- Next week's highlight in New Zealand is the release of 1Q GDP numbers. We expect the country to have rebounded from the double-dip recession, and expect a relatively good 1Q YoY read at 0.8%, which is broadly in line with consensus. Barring another disappointing number, we think that NZD can find some support from the notion that the country is back on a good recovery path. Another leg lower in NZD/USD would only be a function of a stronger USD or deteriorating risk appetite, in our view, as fundamentals continue to point to NZD strength.

## CAD: Canadian economy running hotter

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| USD/CAD | 1.2120 | Mildly Bearish  | 1.2000 - 1.2150 | 1.2000         |


- As widely expected, the Bank of Canada kept it quiet at this week's meeting after having delivered a hawkish surprise in April. As discussed in "[Canada builds the case for higher rates](#)", we think an unchanged policy tone leaves the door open for another C\$1bn per-week worth of tapering in July – which is our base case – and should allow USD/CAD to trade consistently below 1.20 in 2H21.
- More reasons for investors to believe the BoC will keep a good pace in reducing asset purchases may come from the May's inflation report in Canada. We expect headline CPI to have risen to 3.8% from 3.4% YoY in May, which would be quite a strong read considering some restrictions were still in place in Canada in May. We expect this to positively impact CAD as markets consolidate their expectations around a July taper. Thanks to a potentially less stretched long positioning now, the 1.2000 support in USD/CAD may be tested again soon.

## CHF: Same old SNB?

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| EUR/CHF | 1.0886 | Mildly Bullish  | 1.0850 - 1.0950 | 1.1100         |

- You would probably say that the huge amounts of EUR liquidity are a key factor depressing EUR/CHF right now. THE ECB's balance sheet has grown EUR700bn this year. The Swiss National Bank's balance sheet just CHF10bn – with no signs of the aggressive FX intervention we saw from the SNB last summer. We would expect that to resume, however, should EUR/CHF make it anywhere near the 1.0750/1.0800 area.
- On the subject of FX intervention, the SNB holds its quarterly monetary policy meeting on Thursday. Despite slightly disappointing 1Q21 GDP data, expect the SNB to remain reasonably upbeat on growth this year – e.g. in the 2.5% range. Also expect the SNB to maintain its description of the CHF as highly valued and its commitment to keep rates at -0.75% and continue FX intervention if necessary. Any change here would be a big surprise.

## NOK: The NB turning more hawkish

|         | Spot    | Week ahead bias   | Range next week  | 1 month target |
|---------|---------|---|------------------|----------------|
| EUR/NOK | 10.0780 | Bearish  | 9.9500 - 10.1910 | 9.9500         |

- All eyes are on the Norges Bank meeting on Thursday. While the interest rates are set to remain unchanged, the main focus will be on the updated NB interest rate path. With the domestic economy rebounding, higher oil prices and not overly strong NOK, the NB interest rate forecast is likely to be revised higher and likely signal a high probability of a rate hike in September. The scenario of two NB hikes this year (September and December) is thus closer to realizing and with the NB being the most hawkish central bank in the G10 FX space, NOK should benefit. An upbeat NB forecast next week should help EUR/NOK to re-test the 10.00 level.
- With the soft USD and low volatility environment set to remain in place next week, the high beta pro-cyclical NOK should retain support from the external environment too.

## SEK: More for scope for a grind in EUR/SEK lower

|         | Spot    | Week ahead bias  | Range next week   | 1 month target |
|---------|---------|--|-------------------|----------------|
| EUR/SEK | 10.0640 | Mildly Bearish  | 10.0000 - 10.1350 | 10.0000        |

- While the difference in between the NB and Riksbank stances cannot be clearer (the former moving towards two hikes already this year, the latter likely to keep the policy rate unchanged both this year and next) SEK should continue benefiting from the benign global risk environment, characterised by the soft USD dynamics and declining volatility. EUR/SEK to continue grind lower to the 10.00 level yet in the relative value space, NOK should outperform SEK next week given the likely boost to NOK from the NB meeting.
- It is a very quiet week on the Swedish data front and Swedish unemployment data (Monday and Tuesday) should not affect SEK much. Indeed, with May CPI printing lower than expected the case for the Riksbank's on-hold approach strengthened and other domestic data points should not affect the outlook for Riskbank (and thus the outlook for SEK) much.

## Authors

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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